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# Methods of Money Laundering & Terrorist Financing And Suspicious Transaction Reporting

Stephen YIP

Detective Senior Inspector of Police



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Joint Financial  
Intelligence Unit



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◆ About JFIU

◆ Key Legislation

◆ Methods of ML and TF

◆ STR

◆ Case Study



## ◆ About JFIU

## ◆ Key Legislation

## ◆ Methods of ML and TF

## ◆ STR

## ◆ Case Study



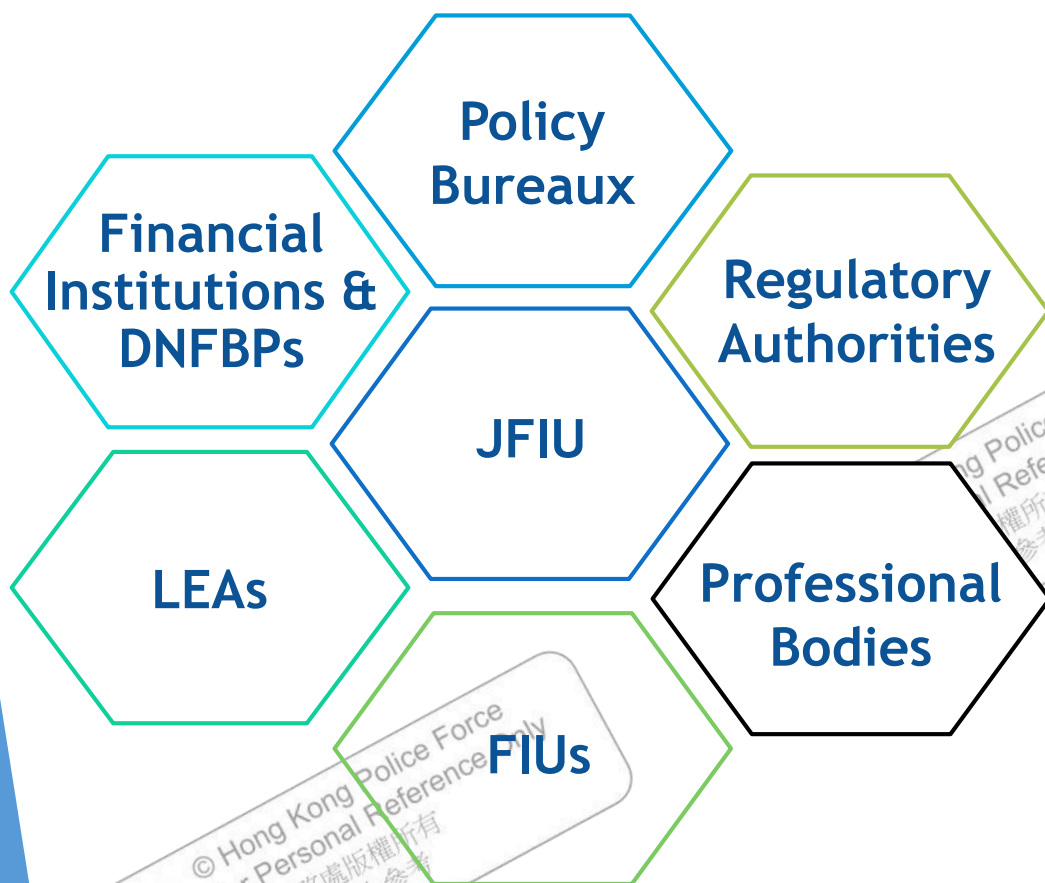


# About JFIU

- ▶ Set up in 1989
- ▶ Co-staffed by officers of HKPF & C&ED
- ▶ Sole agency to manage the suspicious transaction reporting regime
- ▶ Financial intelligence exchanges with FIUs and LEAs worldwide
- ▶ Member of Egmont Group since 1996
- ▶ Establishment of Financial Intelligence and Investigation Bureau (FIIB) in Q1 2021



# About JFIU



## CHARTER

- ▶ Operation analysis of **STR**
- ▶ Global exchange of financial intelligence and information
- ▶ **Strategic analysis** of financial intelligence and other information
- ▶ Research on ML/TF trends and typologies
- ▶ Operation of the STREAMS
- ▶ Support on provisional measures to prevent further dealing of suspicious property
- ▶ Staffing of local and international AML/CFT policy matters
- ▶ Coordination of AML/CFT **training and outreach**

◆ About JFIU

◆ Key Legislation

◆ Methods of ML and TF

◆ STR

◆ Case Study



# Key Legislation

1989

Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP, Cap. 405)  
販毒(追討得益)條例 (第405章)

1994

Organized and Serious Crimes Ordinance (OSCO, Cap. 455)  
有組織及嚴重罪行條例 (第455章)

2002

United Nations (Anti-Terrorism Measures) Ordinance (UNATMO, Cap. 575)  
聯合國(反恐怖主義措施)條例 (第575章)

2012

AML & CFT (Financial Institutions) Ordinance (AMLO, Cap. 615)  
打擊洗錢及恐怖分子資金籌集(金融機構)條例 (第615章)

2018

Amendment of AMLO, Cap. 615  
打擊洗錢及恐怖分子資金籌集條例(第615章)的修訂



# Key Legislation (AML)

Any person

- **Knowing** or having reasonable grounds to believe
- Any property
- In whole or in part directly or indirectly represents **proceeds of drug trafficking / indicatable offence**
- **Deals with the property**

**Maximum Penalty:**

- **HKD 5 Million fine**
- **14 years' imprisonment**

*S.25 of Cap. 405 DTROP*

*S.25 of Cap. 455 OSCO*

# Key Legislation (*CFT*)

Any person shall not

- **Provide** or **collect** directly or indirectly
- Any property
- **With the intention that the property be used or knowing that the property will be used**
- In whole or in part to **commit one or more terrorist acts**

**Maximum Penalty:**

- **14 years' imprisonment**

*S.7 of Cap. 575 UNATMO*

# Key Legislation (*STR*)

Any person

- **Knows** or **suspects**
- Any property represents / was used / is intended to be used in connection with the proceeds of drug trafficking or terrorist property
- Should **disclose** that knowledge or suspicion to **an authorized officer** (i.e. JFIU)

**Maximum Penalty:**

- **Level 5 fine (HKD 50,000)**
- **3 months' imprisonment**

*S.25A(1) of Cap. 405 DTROP*

*S.25A(1) of Cap. 455 OSCO*

*S.12(1) of Cap. 575 UNATMO*

# Key Legislation (*STR*)

Where a person

- **Knows** or **suspects** that a disclosure has been made
- The person **shall not disclose to another person** any matter
- Which is **likely to prejudice any investigation** which might be conducted following that first-mentioned disclosure

**Maximum Penalty:**

- **HKD 500,000 fine**
- **3 months' imprisonment**

*S.25A(5) of Cap. 405 DTROP*

*S.25A(5) of Cap. 455 OSCO*

*S.12(5) of Cap. 575 UNATMO*

◆ About JFIU

◆ Key Legislation

◆ Methods of ML and TF

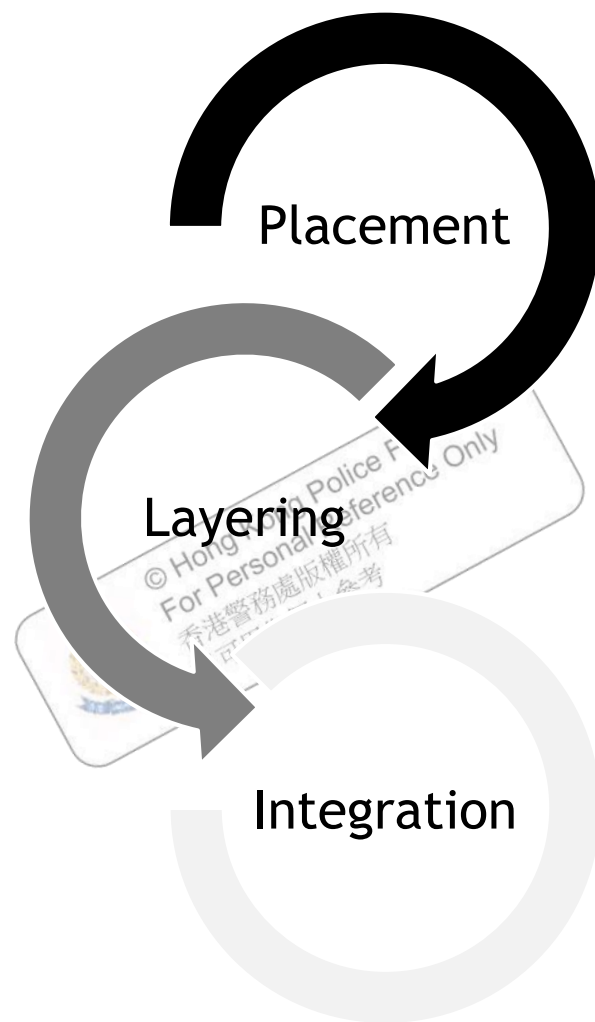
◆ STR

◆ Case Study





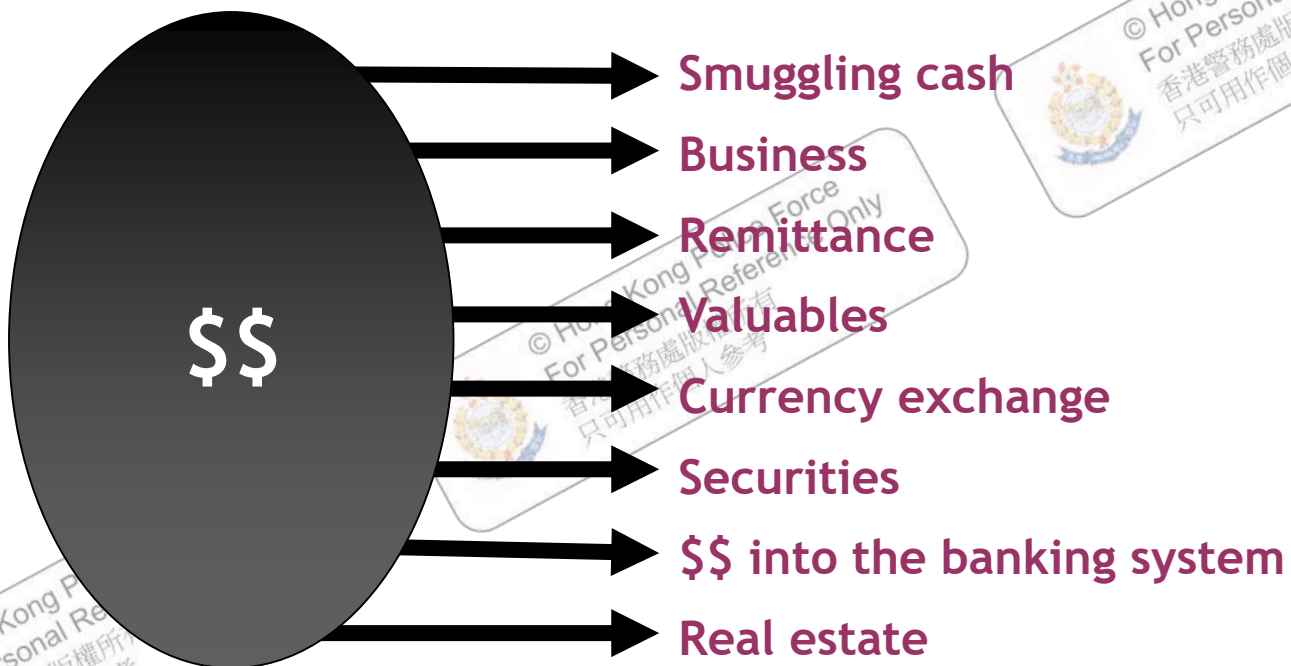
# Methods of Money Laundering



# Methods of Money Laundering

## ► Stage I: Placement

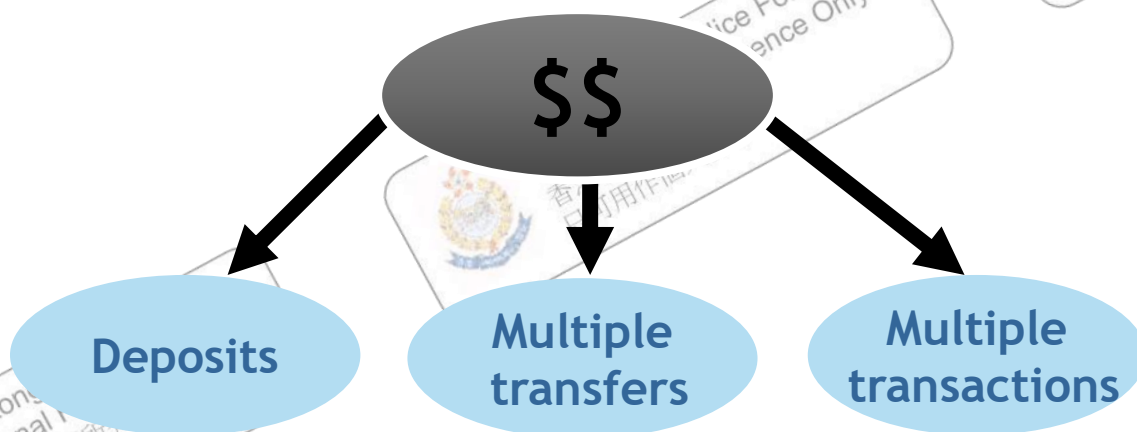
- Place dirty money into the financial system



# Methods of Money Laundering

## ► Stage II: Layering

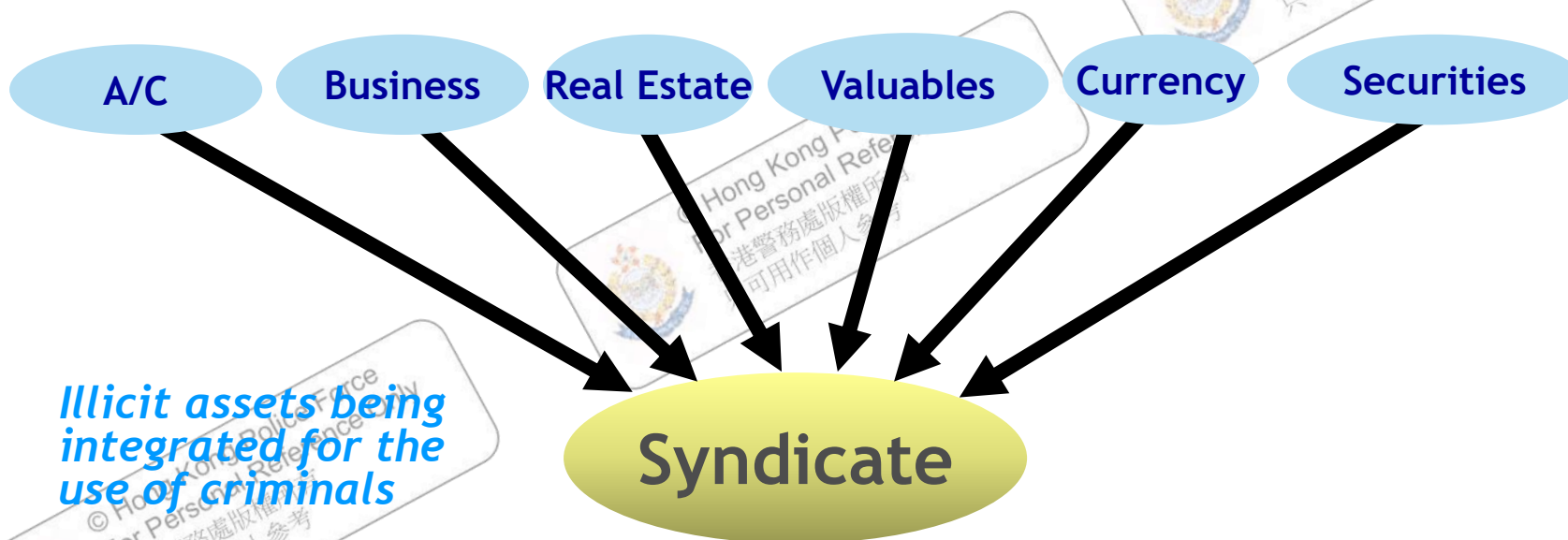
- Convert proceeds of crime into other forms
- Create complex layers of financial transactions to defraud the audit trail, source and owner of funds



# Methods of Money Laundering

## ► Stage III: Integration

- To integrate the laundered funds from different sources
- Use the laundered funds to purchase 'clean assets'



# Methods of Terrorist Financing

- ▶ Abuse of donations and NPOs
- ▶ Funding from criminals or legitimate activities
- ▶ Physical transportation of cash
- ▶ Use of banks accounts and MSOs

\* Overall level of terrorism threat in HK - “Moderate”



◆ About JFIU

◆ Key Legislation

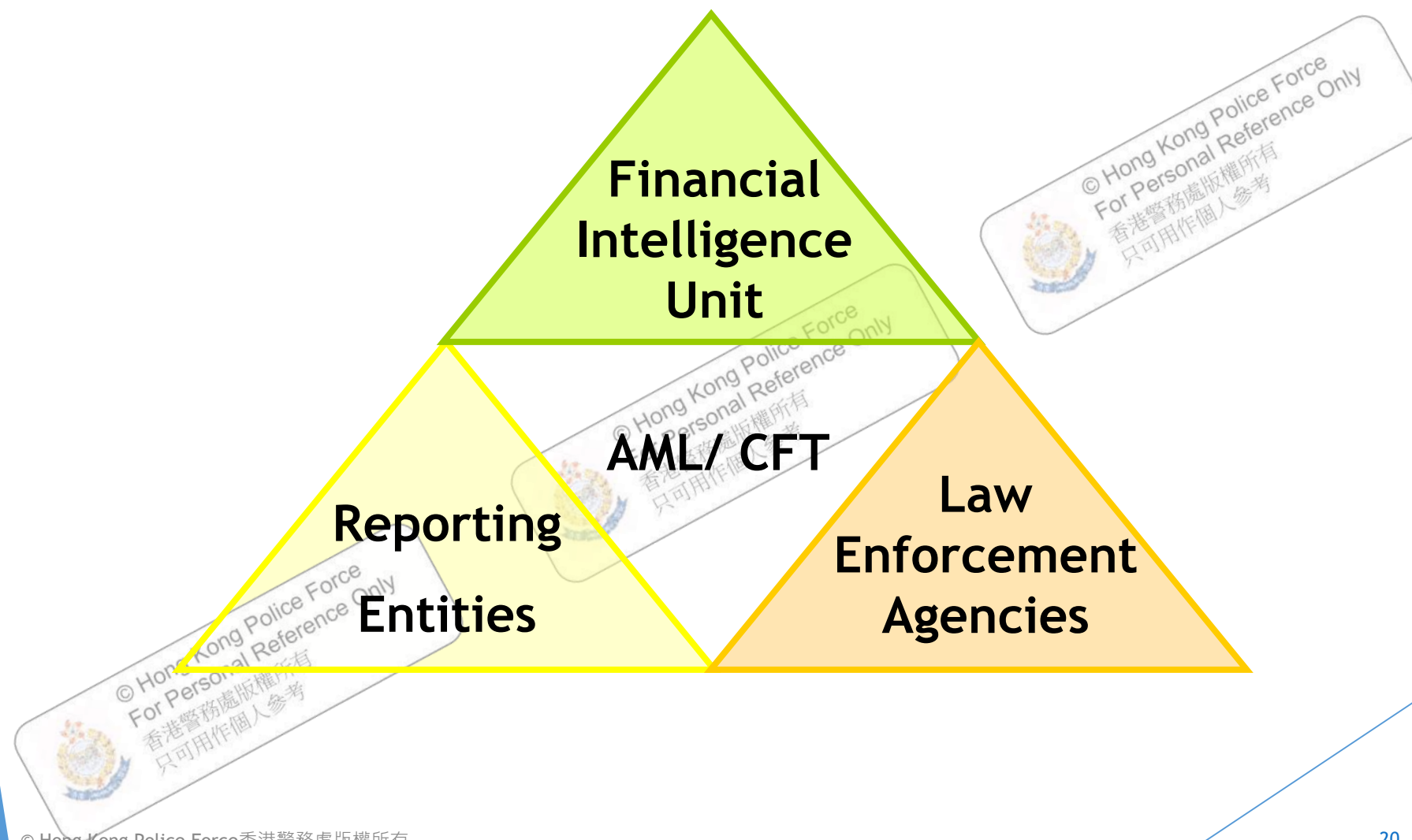
◆ Methods of ML and TF

◆ STR

◆ Case Study



# STR Mechanism



# STR Mechanism

← Public-Private Partnership →

## Reporting Entities

Financial Institutions  
& DNFBPs

CDD + KYC

Record Keeping

Internal Controls

STR Filing

## Financial Intelligence Unit

JFIU

STR Regime

Intelligence Exchange

International Cooperation

Training & Outreach

## Law Enforcement Agencies

e.g. Police, Customs, ICAC

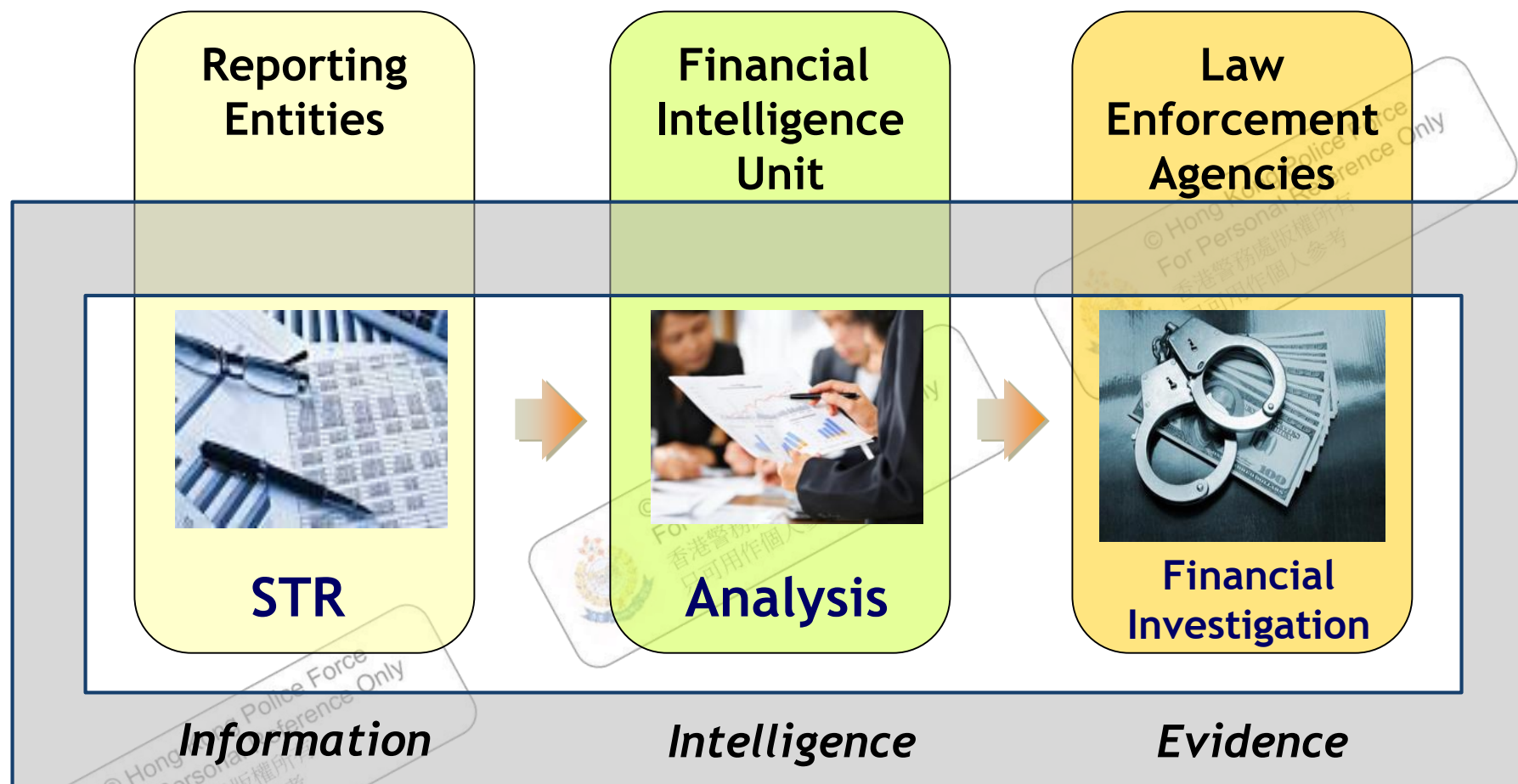
Financial Investigation

Asset Tracing

Restraint & Confiscation

Mutual Legal Assistance

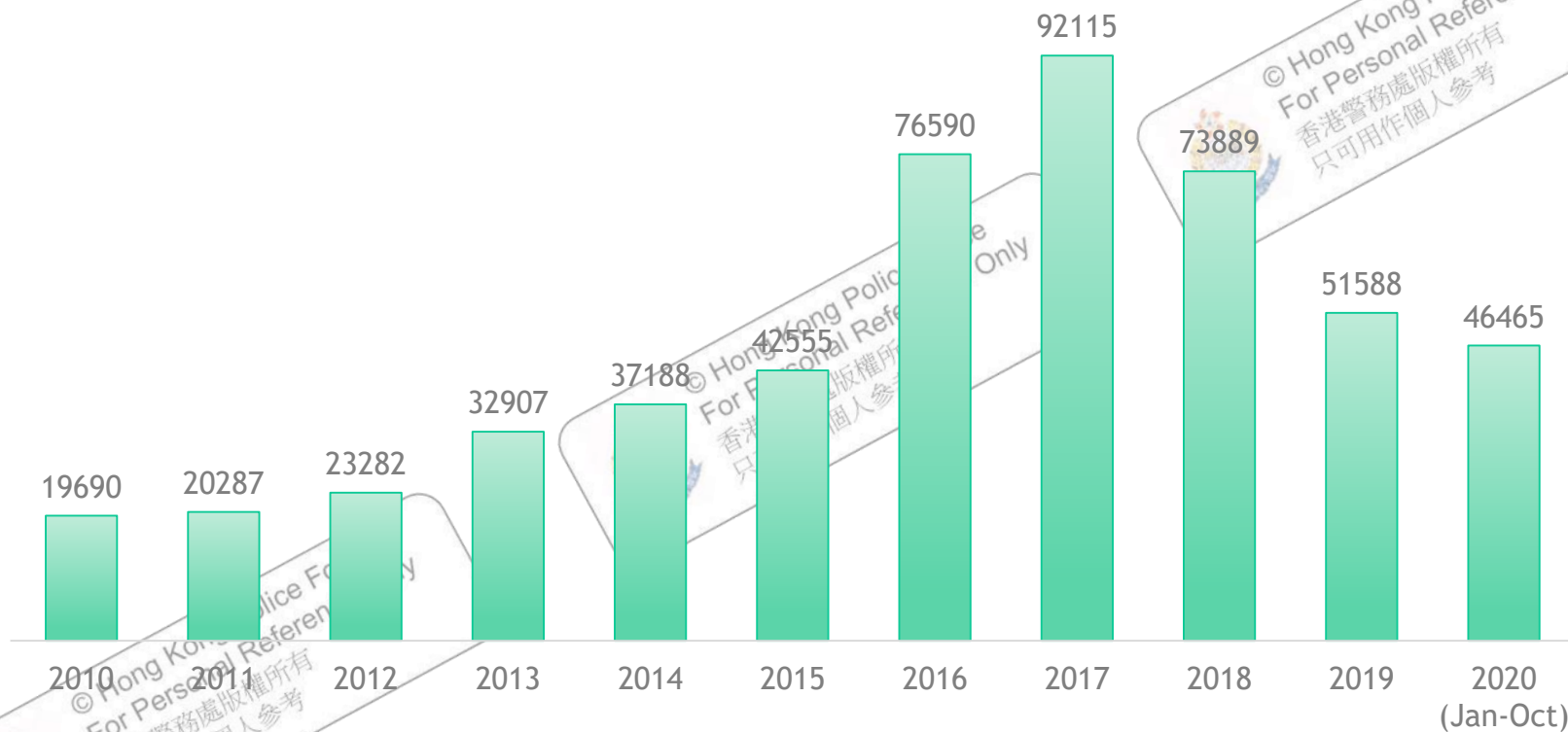
# STR Mechanism



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# STR Statistics

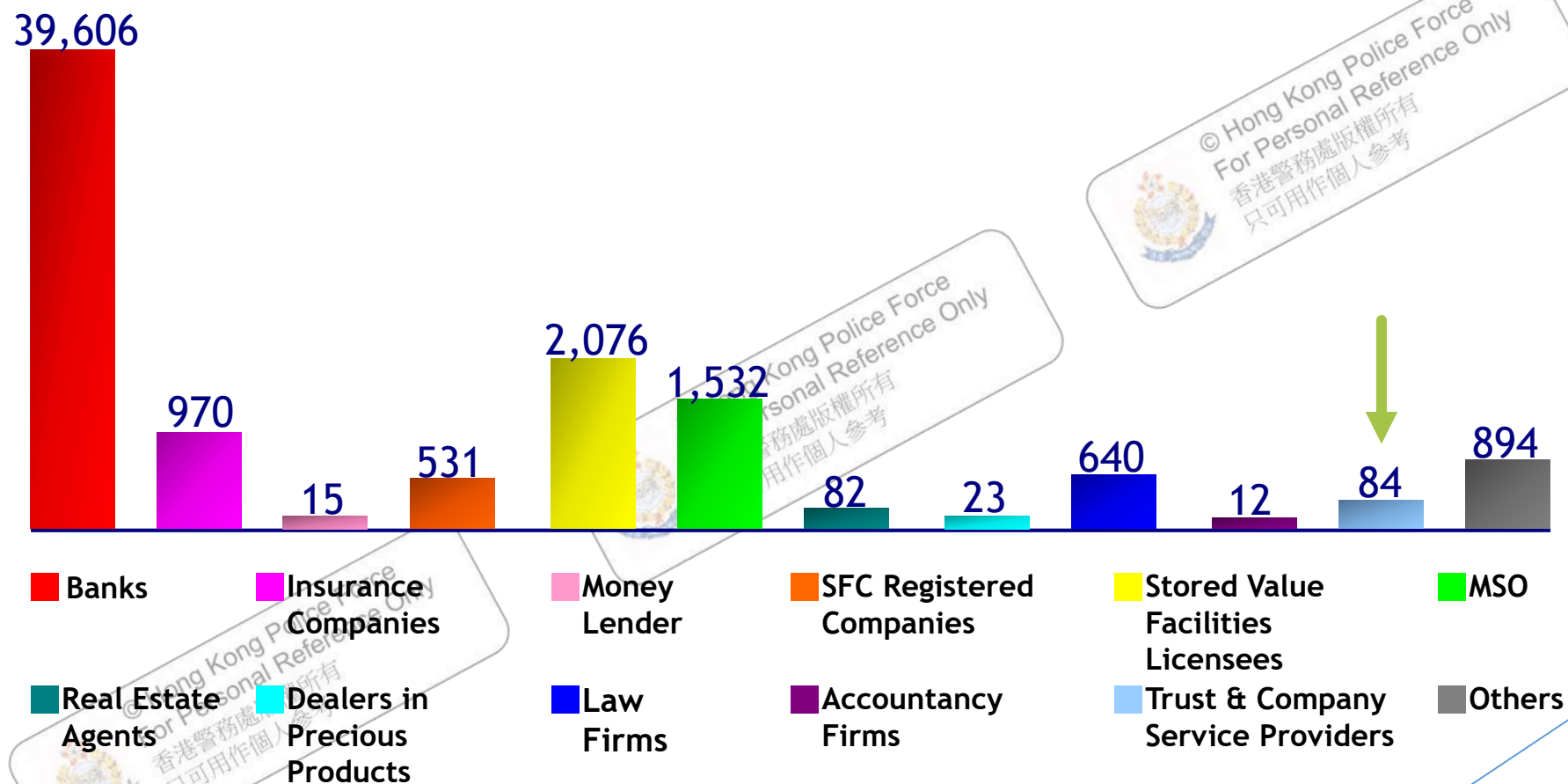
## ► Number of STR received in the past 10 years





# STR Statistics

## ► Sectoral Breakdown of STRs received by JFIU in 2020 (Jan-Oct)



# STR Reporting

## How to submit an STR?

Suspicious transaction reports can be made in one of the following ways:

- by e-reporting system, STREAMS
- by email to [jfiu@police.gov.hk](mailto:jfiu@police.gov.hk)
- by fax to : (852) 2529 4013
- by mail, addressed to Joint Financial Intelligence Unit, GPO Box 6555 Hong Kong
- by telephone (852) 2866 3366 (for urgent reports during office hours)

If you want to file an STR via STREAMS, you have to complete **the application form** and return to the JFIU either by fax (2529 4013) or email ([jfiu@police.gov.hk](mailto:jfiu@police.gov.hk)). If you need any further information, please feel free to contact the JFIU.

Suspicious Transaction  
Report And Management  
System (STREAMS)



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# Recommended Structure of STR

(STR Summary) (Reporting Body) (Subject) (Organization) (Phone) (Address) (Account) (Transaction)  
 (Suspected Crimes) (Suspicious Indicators) (Open Source Info.) (Entity Lists) **Check Save Print**

**Subject**

Sequence No: 1

|                         |              |             |              |
|-------------------------|--------------|-------------|--------------|
| English Name:           | Family Name: | Given Name: | Middle Name: |
| Chinese Name:           | CCC:         | HKID:       |              |
| Other ID                | Type:        | if Others:  |              |
| ID No.:                 | Country:     |             |              |
| DOB:                    | Gender:      | Occupation: |              |
| Nature:                 |              |             |              |
| Phone:                  |              |             |              |
| Email:                  |              |             |              |
| Address:                |              |             |              |
| Additional Information: |              |             |              |

(STR Summary) (Reporting Body) (Subject) (Organization) (Phone) (Address) (Account) (Transaction)  
 (Suspected Crimes) (Suspicious Indicators) (Open Source Info.) (Entity Lists) **Check Save Print**

**Account**

Sequence No: 1

|                         |               |            |       |
|-------------------------|---------------|------------|-------|
| Account Institution:    |               |            |       |
| Account Number:         | Account Type: | if Others: |       |
| Opening Date:           | Closing Date: |            |       |
| Balance:                | Currency: HKD | Amount:    | Date: |
| Related Person:         | Role:         | if Others: |       |
| Related Company:        | Role:         | if Others: |       |
| Additional Information: |               |            |       |



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# Red Flags Indicators (TCSP)

- ▶ Multi-jurisdictional and/or complex structure of corporate entities and/or trusts are established **without valid ground**
- ▶ Payments (local or foreign) are made or received **without a clear connection** to the actual activities of the corporate entity
- ▶ Use of **off-shore bank accounts** without legitimate economic necessity
- ▶ **Customer's unwillingness** or refusal to provide information/documentary proof on himself/herself or beneficial owner(s) of trusts/companies
- ▶ Sources and/or destinations of funds are unknown
- ▶ Transactions are **heavily cash-based** which should normally be carried out through other payment facilities



# Red Flags Indicators (TCSP)

- ▶ Customer's **background is not commensurate with the value of transactions** carried out by the customer or on behalf of the company
- ▶ A company is established primarily for the purpose of **collecting funds from various sources** which are then transferred to local/foreign bank accounts that have no apparent ties with the company
- ▶ Incorporation of a company by a **non-resident with no links or activities in the jurisdiction** where the company is established
- ▶ The **money flow** generated by a company **is not in line** with its underlying **business activities**



# ‘SAFE’ Approach

Screen

Ask

Find

Evaluate

subject entities’ background & transactions

appropriate questions to clarify circumstances

relevant records for review

whether suspicion is substantiated

# STR filing

STR Summary

Reporting Body

Subject

Organization

Phone

Address

Account

Transaction

Suspected Crimes

Suspicious Indicators

Open Source Info.

Entity Lists

Check

Save

Print

REPORT MADE UNDER SECTION 25A OF THE  
DRUG TRAFFICKING (RECOVERY OF PROCEEDS) ORDINANCE OR  
ORGANIZED AND SERIOUS CRIMES ORDINANCE/  
SECTION 12 OF THE UNITED NATIONS (ANTI-TERRORISM MEASURES) ORDINANCE  
TO THE JOINT FINANCIAL INTELLIGENCE UNIT ("JFIU")

STR Summary

|                             |   |
|-----------------------------|---|
| STR Number:                 | <div></div>   |
| Submission Number:          | <div></div>   |
| Date of Submission:         | <div></div>   |
| Acknowledgement Issue Date: | <div></div>   |
| Consent Letter Issue Date:  | <div></div>   |
| Consent:                    | <div><div><input checked="" type="checkbox"/> None</div><div><input type="checkbox"/> Yes</div><div><input type="checkbox"/> No</div><div><input type="checkbox"/> Not Applicable</div></div> |
| Consent Remark:             | <div></div>   |

Special Cases with Time Critical Nature:

|   |   |
|---|---|
| * Report Related to Existing Investigation: | <div><input type="checkbox"/> Yes</div> <div><input checked="" type="checkbox"/> No</div> |
|---|---|

Attachment:

Refresh

| No.   | File Name | File Size |
|-------|-----------|-----------|
| 1     |           | KB        |
| Total |           | KB        |



# STR filing

STR Summary **Reporting Body** Subject Organization Phone Address Account Transaction  
Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists **Check** **Save** **Print**

## Reporting Body

|                         |                      |
|-------------------------|----------------------|
| Organization ID:        | <input type="text"/> |
| Organization Name:      | <input type="text"/> |
| Reporting Officer ID:   | <input type="text"/> |
| Reporting Officer:      | <input type="text"/> |
| Organization Reference: | <input type="text"/> |
| Phone:                  | <input type="text"/> |
| Fax:                    | <input type="text"/> |
| Email:                  | <input type="text"/> |

### \*Reason for Disclosure:

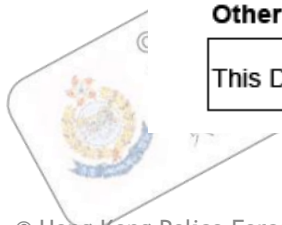
|  |                          |
|--|--------------------------|
| Drug Trafficking (ROP) Ordinance [Cap.405]:                    | <input type="checkbox"/> |
| Organized and Serious Crimes Ordinance [Cap. 455]:             | <input type="checkbox"/> |
| United Nations (Anti-Terrorism Measures) Ordinance [Cap. 575]: | <input type="checkbox"/> |

### Other Information:

|   |   |
|---|---|
| This Disclosure Related to a Previous Disclosure: | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
|---|---|



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# STR filing

STR Summary

Reporting Body

Subject

Organization

Phone

Address

Account

Transaction

Suspected Crimes

Suspicious Indicators

Open Source Info.

Entity Lists

Check

Save

Print

Subject

Sequence No: 1

English Name:

Family Name:

Given Name:

Middle Name:

Chinese Name:

CCC:

HKID:

Other ID

Type:

if Others:

ID No.:

Country:

DOB:

Gender:

Occupation:

Nature:

Phone:

Email:

Address:

Additional Information:



# STR filing

|                  |                       |                   |                     |   |         |         |             |
|------------------|-----------------------|-------------------|---------------------|---|---------|---------|-------------|
| STR Summary      | Reporting Body        | Subject           | <b>Organization</b> | Phone   | Address | Account | Transaction |
| Suspected Crimes | Suspicious Indicators | Open Source Info. | Entity Lists        | <input type="button" value="Check"/> <input type="button" value="Save"/> <input type="button" value="Print"/> |         |         |             |

**Organization**

Sequence No: 1 + -

|   |  |  |  |
|---|--|--|--|
| English Name:                             |  |  |  |
| Chinese Name:                             |  | Date of Incorporation:   |  |
| Local Company: <input type="checkbox"/>   | BR No.: _____  | CR No.: _____  | Public Listed Company No.: _____                                       |
| Oversea Company: <input type="checkbox"/> | Country: _____   |  | Reg. No.: _____  |
| Non-Government Organization:              | <input type="checkbox"/> Yes <input type="checkbox"/> No               | Charitable Organization:   | <input type="checkbox"/> Yes <input type="checkbox"/> No               |
| Nature:                                   | <div style="border: 1px solid #ccc; height: 15px; width: 100%;"></div> | Business Nature:   | <div style="border: 1px solid #ccc; height: 15px; width: 100%;"></div> |
| Phone:                                    |  |  |  |
| Email:                                    | <div style="border: 1px solid #ccc; height: 15px; width: 100%;"></div> |  |  |
| Address:                                  | <div style="border: 1px solid #ccc; height: 40px; width: 100%;"></div> |  |  |
| Related Person:                           |  | Role: <div style="border: 1px solid #ccc; height: 15px; width: 100%;"></div> | if Others: _____   |
| Related Company:                          |  | Role: <div style="border: 1px solid #ccc; height: 15px; width: 100%;"></div> | if Others: _____   |
| Additional Information:                   | <div style="border: 1px solid #ccc; height: 40px; width: 100%;"></div> |  |  |





# STR filing

STR Summary

Reporting Body

Subject

Organization

Phone

Address

Account

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Suspected Crimes

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Open Source Info.

Entity Lists

Check

Save

Print

## Phone Entity

Save +

| No. | Linked?                  | Country Code | Area Code | * Subscriber Number | Extension |
|-----|--------------------------|--------------|-----------|---------------------|-----------|
| 1   | <input type="checkbox"/> |              |           |                     |           |



# STR filing

STR Summary

Reporting Body

Subject

Organization

Phone

Address

Account

Transaction

Suspected Crimes

Suspicious Indicators

Open Source Info.

Entity Lists

Check

Save

Print

Address Entity

Save +

| No. | Linked?                  | Address Detail |
|-----|--------------------------|----------------|
| 1   | <input type="checkbox"/> |                |



# STR filing

|                  |                       |                   |              |              |             |                |             |
|------------------|-----------------------|-------------------|--------------|--------------|-------------|----------------|-------------|
| STR Summary      | Reporting Body        | Subject           | Organization | Phone        | Address     | <b>Account</b> | Transaction |
| Suspected Crimes | Suspicious Indicators | Open Source Info. | Entity Lists | <b>Check</b> | <b>Save</b> | <b>Print</b>   |             |

|                         |                                    |                                    |                                 |
|-------------------------|------------------------------------|------------------------------------|---------------------------------|
| <b>Account</b>          |                                    |                                    |                                 |
| Sequence No:            | 1                                  |                                    | <b>+</b> <b>-</b>               |
| Account Institution:    |                                    |                                    |                                 |
| Account Number:         |                                    | Account Type: <input type="text"/> | if Others: <input type="text"/> |
| Opening Date:           |                                    | Closing Date:                      |                                 |
| Balance:                | Currency: HKD <input type="text"/> | Amount: <input type="text"/>       | Date: <input type="text"/>      |
| Related Person:         |                                    | Role: <input type="text"/>         | if Others: <input type="text"/> |
| Related Company:        |                                    | Role: <input type="text"/>         | if Others: <input type="text"/> |
| Additional Information: |                                    |                                    |                                 |



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# STR filing

STR Summary Reporting Body Subject Organization Phone Address Account **Transaction**  
Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists **Check Save Print**

## Summary of Suspicious Transaction in the Reviewed Period

| No.                      | From (Date) | To (Date) | Subject | Type    | Currency | Amount |
|--------------------------|-------------|-----------|---------|---------|----------|--------|
| 1                        |             |           |         |         | HKD      | + -    |
| Transaction Branch:      |             |           |         |         |          |        |
| Transaction Counterpart: |             |           | A/C:    | Others: |          |        |
| Remark:                  |             |           |         |         |          |        |

\* Total Amount of Suspicious Transactions Reported (in HKD)

\* Total Period covering the Suspicious Transactions (in days)

\* Daily Average of the Suspicious Transactions Reported



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# STR filing

STR Summary Reporting Body Subject Organization Phone Address Account Transaction  
Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists Check Save Print

## Suspected Crimes (Please put a "✓" in the selected box(es).)

### Designated Categories of Offences by FATF

Clear Checkbox

- |  |   |
|--|---|
| <input type="checkbox"/> Participation in an Organized Criminal Group and Racketeering     | <input type="checkbox"/> Counterfeiting Currency  |
| <input type="checkbox"/> Terrorism including Terrorist Financing                           | <input type="checkbox"/> Counterfeiting and Piracy of Products                                    |
| <input type="checkbox"/> Trafficking in Human Beings and Migrant Smuggling                 | <input type="checkbox"/> Environmental Crime  |
| <input type="checkbox"/> Sexual Exploitation including Sexual Exploitation of Children     | <input type="checkbox"/> Murder, Grievous Bodily Injury   |
| <input type="checkbox"/> Illicit Trafficking in Narcotic Drugs and Psychotropic Substances | <input type="checkbox"/> Kidnapping, Illegal Restraint and Hostage-Taking                         |
| <input type="checkbox"/> Illicit Arms Trafficking  | <input type="checkbox"/> Robbery or Theft   |
| <input type="checkbox"/> Illicit Trafficking in Stolen and Other Goods                     | <input type="checkbox"/> Smuggling (including in relation to customs and excise duties and taxes) |
| <input type="checkbox"/> Corruption and Bribery  | <input type="checkbox"/> Tax Crimes (related to direct taxes and indirect taxes)                  |
| <input type="checkbox"/> Fraud   | <input type="checkbox"/> Extortion  |
| <input type="checkbox"/> Email Scam  | <input type="checkbox"/> Forgery  |
| <input type="checkbox"/> Investment Scam   | <input type="checkbox"/> Piracy   |
| <input type="checkbox"/> Romance Scam  | <input type="checkbox"/> Insider Trading and Market Manipulation                                  |
| <input type="checkbox"/> Telephone Deception   |   |
| <input type="checkbox"/> Others (Please specify)   |   |
- 
- |   |   |
|---|---|
| <input type="checkbox"/> Money Laundering       | <input type="checkbox"/> No Crime Related                                   |
| <input type="checkbox"/> Self Laundering        | <input type="checkbox"/> Other (Please specify in 'Additional Information') |
| <input type="checkbox"/> Third-Party Laundering |   |

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# STR filing

STR Summary Reporting Body Subject Organization Phone Address Account Transaction  
Suspected Crimes **Suspicious Indicators** Open Source Info. Entity Lists **Check Save Print**

## Suspicious Indicators (Please put a "✓" in the selected box(es).)

### Fund Movement Pattern

- ☐ Indirect Transaction/ Transaction Intended to Break Audit Trail
- ☐ Uneconomical Transaction/ Transaction with No Business Purpose
- ☐ Temporary Repository of Fund
- ☐ Numerous Transaction Counterparties without Apparent Reasonable Cause
- ☐ Transaction Involving High-Risk Jurisdiction/Region
- ☐ Large Cash Transaction
- ☐ N/A

### Accounts

- ☐ Shell Company
- ☐ Account Operated/Controlled by Third-Party other than Signatory/Account Holder
- ☐ Non-Resident Personal Account
- ☐ Offshore Company
- ☐ N/A

### Customer Background/Behavior

Clear Checkbox

- ☐ Transactions/ Amount Incommensurate with the Background of the Person / Business
- ☐ Suspected Money Courier/Unlicensed Money Service Operator
- ☐ Politically Exposed Persons (PEP)
- ☐ Customer Insisted to Use Less Secured Transactions
- ☐ Customer Evasive/Reluctant to Provide Information
- ☐ Suspected Counterfeit Document Presented by the Customers
- ☐ N/A

### Others

Clear Checkbox

- ☐ Casino related Suspicious Transaction
- ☐ Charitable Organization/NPO related Suspicious Transaction
- ☐ Others (Please Specify)
- ☐ N/A

Narrative comment about the questioned transactions:



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# STR filing

(STR Summary) (Reporting Body) (Subject) (Organization) (Phone) (Address) (Account) (Transaction)  
(Suspected Crimes) (Suspicious Indicators) **Open Source Info.** (Entity Lists) **Check Save Print**

## Open Source Information

Website:

Additional Information:



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# STR filing

STR Summary Reporting Body Subject Organization Phone Address Account Transaction

Suspected Crimes Suspicious Indicators Open Source Info. Entity Lists

Check Save Print

Entity Lists

Subject List

| No. | Linked                   | English Name | Chinese Name | HKID | Other ID No. | Country | Occupation |         |
|-----|--------------------------|--------------|--------------|------|--------------|---------|------------|---------|
| 1   | <input type="checkbox"/> |              |              |      |              |         |            | + - ... |

Organization List

| No. | Linked                   | Company Name | Registration Type | Person Name | Person Role | Company Name | Company Role |         |
|-----|--------------------------|--------------|-------------------|-------------|-------------|--------------|--------------|---------|
| 1   | <input type="checkbox"/> |              |                   |             |             |              |              | + - ... |

Phone List

| No. | Country Code | Area Code | * Subscriber Number | Extension |         |
|-----|--------------|-----------|---------------------|-----------|---------|
| 1   |              |           |                     |           | + - ... |

Account List

| No. | Account Number | Account Type | Person Name | Person Role | Company Name | Company Role |         |
|-----|----------------|--------------|-------------|-------------|--------------|--------------|---------|
| 1   |                |              |             |             |              |              | + - ... |

Address List

| No. | Address Detail |         |
|-----|----------------|---------|
| 1   |                | + - ... |



# Recommended Structure of STR Narrative

- 1) Triggering Factors
- 2) Background of Subject(s)
- 3) Transactions
- 4) Reporting Entity's Enquiries & Open Source Information
- 5) Conclusion & Way Forward

# Recommended Structure of STR Narrative

## 1) Triggering Factors

- ▶ Involved crimes (fraud/corruption/sanctions/terrorist acts, etc.)
- ▶ Warrants/court orders received
- ▶ Open source information (news/list of regulatory agencies, etc.)
- ▶ Pattern of suspicious transactions (large transactions/temporary repository of fund, etc.)

## 2) Background of Subject(s)

- ▶ Personal: Age, occupation, income, transaction history, etc.
- ▶ Corporate: Date of establishment, business nature, expected transaction amount, etc.



# Recommended Structure of STR Narrative

## 3) Transactions

- ▶ Reviewed period
- ▶ Fund movement pattern (sudden change?)
- ▶ Total amount deposited/withdrawn
- ▶ Suspicious transactions (Not limited to transactions of large amount/frequent transactions)
- ▶ Pattern of suspicious transactions

# Recommended Structure of STR Narrative

## 4) Reporting Entities' Enquiries & Open Source Information

- ▶ Suspicious indicators (KYC queries, world check, etc. → not necessary to report all queries carried out)
- ▶ Links of open source information

## 5) Conclusion & Way Forward

- ▶ Conclusion of the report
- ▶ Follow-up actions (Enhanced CDD measure, End of business relationship, etc.)

# STR Feedback

- ▶ Acknowledgement of receipt
- ▶ Consent / No Consent / N/A
- ▶ Quarterly STR analyses
- ▶ Meeting with stakeholders



◆ About JFIU

◆ Key Legislation

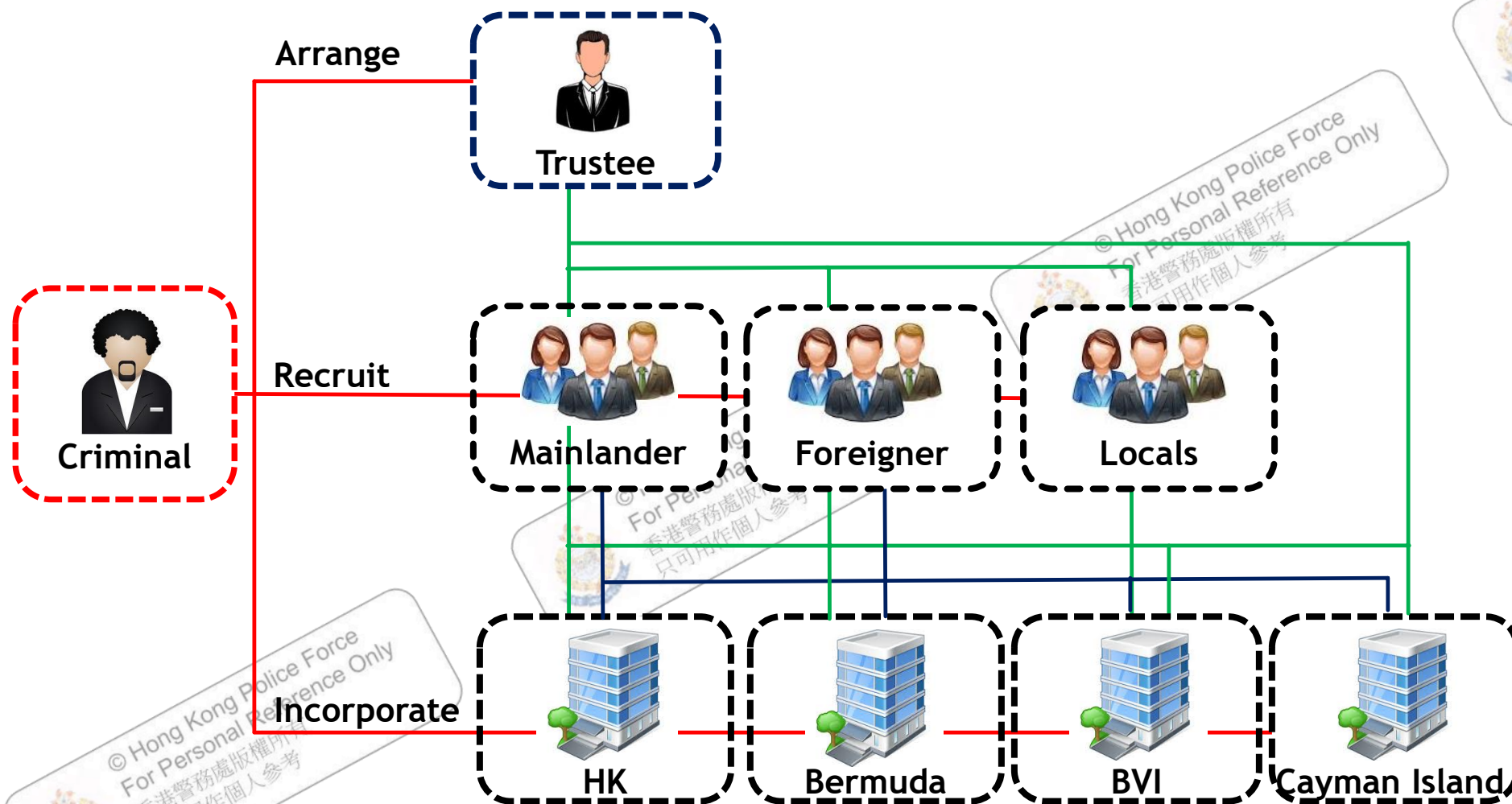
◆ Methods of ML and TF

◆ STR

◆ Case Study



# Case Study



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# Thank You!

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